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## **HISTORICAL NUGGETS**

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### **THE BEHAVIOURAL IMPACT OF BUDGETS: EARLY ACCOUNTING CONTRIBUTIONS**

**Abstract:** Accounting writers have invariably referred to the accounting literature of the 1960s and 1970s as the earliest source of discussion about the impact of budgets upon manager behaviour. This short paper identifies a number of accounting writers of earlier decades, whose contribution to this subject has to date been overlooked.

Beyond the seminal work on behavioural aspects of budgeting published by Argyris<sup>1</sup> in 1957, accounting writers have looked to the accounting literature of the 1960s and 1970s as the source of observations and discussion about the behavioural impact of budgets. This short paper pays due recognition to the insights offered by accounting writers in earlier decades. While they formed a decided minority relative to the mainstream of accounting writers, the prescience of their contribution should not be ignored. Accordingly, this paper seeks to establish their unique place in the behavioural accounting tradition.

#### *Observing Unpopularity*

From the 1930s onwards, just a few accounting writers observed the budget's growing unpopularity. McGladrey<sup>2</sup> noted for budgets that "their value is about in inverse ratio to their popularity." Such unfavourable attitudes were observed to exist in businessmen and laymen alike, particularly where budgets had been used to exert relentless pressure for improved performance. For many, budgets had become a symbol of oppressive action to be regarded with suspicion and mistrust.<sup>3</sup> Yet the writers who observed such budgetary unpopularity often failed to recognise the associated range of causes. Discussion of causes mostly came from others who did not appear to have considered to what extent the resulting problems had caused budgetary unpopularity.

*Budgetary Problems*

What sort of behavioural problems had accounting writers begun to recognise in budgeting? Makin<sup>4</sup> noticed the tendency of managers "to shift the blame on to 'the other fellow' " when things went wrong, but merely saw it as an inherent "singular reluctance to shoulder responsibilities" rather than as a reaction to the budgeting system. Yet some other writers had begun to recognise budgeting administration problems that caused negative subordinate reactions. Theiss<sup>5</sup> pointed to the overemphasis on the negative idea of restricting expenditures through budgeting, while Hawkins<sup>6</sup> and Bunge<sup>7</sup> expressed concern about the propensity for the budget to be used in a rigid and arbitrary fashion by higher management. Such rigidity, they felt could destroy executives' initiative and result in the full expenditure of all budget allowances, even when savings could have been achieved relatively easily. One further budgetary problem recognised by a small group of accounting writers was that of pressure for increasingly demanding performance targets. This, it was argued, would cause dissatisfaction and resentment among various management levels with foremen and other managers setting up defenses against those administering budget controls.<sup>8</sup>

Very few authors considered what positive actions could be taken in administering budgets in order to diminish observed behavioural problems. There was some recognition of the need for a degree of lower level management self-determination in the budgetary process.<sup>9</sup> However, there was no detailed analysis and behavioural matters did not rate any mention by the vast majority of accounting writers.

*A. G. H. Dent and The Human Factor*

In 1931 Dent<sup>10</sup> published a paper in the Manchester Guardian Commercial entitled "Budgetary Business Control in Practice." This represented a significant and apparently conscious departure from the conventional accounting wisdom about budgeting at that time and appears to have been one of the earliest and most detailed accounting discussions of the behavioural impact of budgeting.

Unlike most of his accounting colleagues, Dent considered the most important factor in budgetary control to be the human factor. Indeed he saw budgetary control as a means of curtailing the "irregular extension of power by unscrupulous executives." However in doing so, he anticipated that the budget could cause some executives to fear that their jobs would be defined and restricted.

With respect to target setting, Dent argued that salesmen should be encouraged to set their own quotas and that such quotas should not simply be handed down to them by senior management. Thus, he contended that "on psychological counts budgets should be built up from below." In this way budgets could promote coordination while not limiting initiative.

In administering the budget, Dent called for senior executives to exercise "psychological insight," patience and tact because in his view the problems of technique were secondary to the psychological problems. He concluded:

The most important problem is organising men to work together through applied patience, understanding and goodwill.<sup>11</sup>

#### *James L. Peirce and The Human Relationship*

Over 20 years later, but still in advance of even the 1960s, James Peirce<sup>12</sup> argued that the budget rested on principles that had more in common with concepts of human relationship than with rules of accounting. He reported surveys showing the unpopularity of budgets among foremen and the damage that was caused by the misuse of budgeting procedures. He stated:

Budgets represent restriction. They are in the same category as school bells and Monday mornings.<sup>13</sup>

In Peirce's view, budgets were associated in many people's minds with "paucity and niggardliness." In response, he contended that when human attitudes were conditioned by distrust, criticism and recrimination, any technique (such as budgeting) designed for improving performance would be likely to fail.

As an alternative approach to budgeting, Peirce required the budget to be continually adjusted to the needs and capacities of organisational personnel. It should function on the basis of enlightened relationships among people. He called for the budget to facilitate planned rather than expedient action and for its use as a pressure device (producing only "reluctant and minimal performance") to be abandoned. In his view blame-placing and censure of subordinates for budget results produced frustration, concealment of actual results, and padding of budget estimates. Instead, he called for an attitude to budgeting of "let's do it together" rather than "you do it or else." With respect to the accountant's role in budgeting, Peirce stated:

It is a preposterous notion that a budget man vaults to success on the failures and errors of the line.<sup>14</sup>

The attitude of staff personnel, he proposed, should be one of maximum helpfulness to the line personnel.

### *In Retrospect*

What significance can be attached to these early accounting contributions to the literature on budgeting and human behaviour? It must first be emphasized that they were a very small minority in the mainstream of accounting thought on budgeting. Their work was essentially normative, as was the custom of their times. Indeed most made their behavioural observations as "asides" to their discussions of traditional technical concerns. This makes the contributions of Dent and Peirce all the more remarkable. Dent anticipated views not really expressed again in such detail by accountants until thirty years later. Peirce indulged in a more detailed treatment of the subject than his contemporaries and even then went beyond their limited recognitions of behavioural problems in budgeting to consider potential solutions.

While such accounting contributions admittedly represent isolated occurrences in the accounting literature, it is for that very reason that they have probably been overlooked. This brief analysis is intended to redress that neglect.

### FOOTNOTES

<sup>1</sup>Argyris (1957).

<sup>2</sup>McGladrey (1934) p. 488.

<sup>3</sup>Peck (1938) p. 471; Bronner (1953) p. 609; Loncar (1956) p. 950.

<sup>4</sup>Makin (1940) p. 289.

<sup>5</sup>Theiss (1937) p. 45.

<sup>6</sup>Hawkins (1935) p. 272.

<sup>7</sup>Bunge (1946) p. 502.

<sup>8</sup>Hawkins (1935) p. 272; Bronner (1935) p. 609; Loncar (1956) p. 950.

<sup>9</sup>Wright (1927) pp. 5-7;; Muth (1947) pp. 1504-1505.

<sup>10</sup>Dent (1931).

<sup>11</sup>Dent (1931) p. 549.

<sup>12</sup>Peirce (1954).

<sup>13</sup>Peirce (1954) p. 58.

<sup>14</sup>Peirce (1954) p. 64.

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